Senate File 40 - Introduced

SENATE FILE 40
BY ZAUN

A BILL FOR

An Act providing an exemption from the computation of the individual income tax of certain amounts of retirement income and including retroactive applicability provisions.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

Section 1. Section 8.57E, subsection 2, Code 2019, is amended to read as follows:

2. Moneys in the taxpayer relief fund shall only be used pursuant to appropriations or transfers made by the general assembly for tax relief~~, including but not limited to increases in the general retirement income exclusion under section 422.7, subsection 31,~~ or reductions in income tax rates.

Sec. 2. Section 422.5, subsection 3, paragraph a, Code 2019, is amended to read as follows:

a. The tax shall not be imposed on a resident or nonresident whose net income, as defined in section 422.7, is thirteen thousand five hundred dollars or less in the case of married persons filing jointly or filing separately on a combined return, heads of household, and surviving spouses or nine thousand dollars or less in the case of all other persons; but in the event that the payment of tax under this division would reduce the net income to less than thirteen thousand five hundred dollars or nine thousand dollars as applicable, then the tax shall be reduced to that amount which would result in allowing the taxpayer to retain a net income of thirteen thousand five hundred dollars or nine thousand dollars as applicable. The preceding sentence does not apply to estates or trusts. For the purpose of this subsection, the entire net income, including any part of the net income not allocated to Iowa, shall be taken into account. ~~For purposes of this subsection, net income includes all amounts of pensions or other retirement income, except for military retirement pay excluded under section 422.7, subsection 31A, paragraph "a", or section 422.7, subsection 31B, paragraph "a", received from any source which is not taxable under this division as a result of the government pension exclusions in section 422.7, or any other state law.~~ If the combined net income of a husband and wife exceeds thirteen thousand five hundred dollars, neither of them shall receive the benefit of this subsection, and it is immaterial whether they file a joint return or separate returns. However, if a husband and wife file separate returns and have a combined net income of thirteen thousand five hundred dollars or less, neither spouse shall receive the benefit of this paragraph, if one spouse has a net operating loss and elects to carry back or carry forward the loss as provided in section 422.9, subsection 3. A person who is claimed as a dependent by another person as defined in section 422.12 shall not receive the benefit of this subsection if the person claiming the dependent has net income exceeding thirteen thousand five hundred dollars or nine thousand dollars as applicable or the person claiming the dependent and the person's spouse have combined net income exceeding thirteen thousand five hundred dollars or nine thousand dollars as applicable.

Sec. 3. Section 422.5, subsection 3, Code 2019, is amended by adding the following new paragraph:

NEW PARAGRAPH. *c.* (1) For purposes of this subsection, net income includes all amounts of pensions or other retirement income, except for military retirement pay excluded under section 422.7, subsection 31A, paragraph *"a"*, or section 422.7, subsection 31B, paragraph *"a"*, and except for retirement income excluded under section 422.7, subsection 31C, received from any source which is not taxable under this division as a result of the government pension exclusions in section 422.7, or any other state law.

(2) This paragraph *"c"* is repealed January 1, 2023.

Sec. 4. Section 422.5, subsection 3B, paragraph a, Code 2019, is amended to read as follows:

a. The tax shall not be imposed on a resident or nonresident who is at least sixty-five years old on December 31 of the tax year and whose net income, as defined in section 422.7, is thirty-two thousand dollars or less in the case of married persons filing jointly or filing separately on a combined return, heads of household, and surviving spouses or twenty-four thousand dollars or less in the case of all other persons; but in the event that the payment of tax under this division would reduce the net income to less than thirty-two thousand dollars or twenty-four thousand dollars as applicable, then the tax shall be reduced to that amount which would result in allowing the taxpayer to retain a net income of thirty-two thousand dollars or twenty-four thousand dollars as applicable. The preceding sentence does not apply to estates or trusts. For the purpose of this subsection, the entire net income, including any part of the net income not allocated to Iowa, shall be taken into account. ~~For purposes of this subsection, net income includes all amounts of pensions or other retirement income, except for military retirement pay excluded under section 422.7, subsection 31A, paragraph "a", or section 422.7, subsection 31B, paragraph "a", received from any source which is not taxable under this division as a result of the government pension exclusions in section 422.7, or any other state law.~~ If the combined net income of a husband and wife exceeds thirty-two thousand dollars, neither of them shall receive the benefit of this subsection, and it is immaterial whether they file a joint return or separate returns. However, if a husband and wife file separate returns and have a combined net income of thirty-two thousand dollars or less, neither spouse shall receive the benefit of this paragraph, if one spouse has a net operating loss and elects to carry back or carry forward the loss as provided in section 422.9, subsection 3. A person who is claimed as a dependent by another person as defined in section 422.12 shall not receive the benefit of this subsection if the person claiming the dependent has net income exceeding thirty-two thousand dollars or twenty-four thousand dollars as applicable or the person claiming the dependent and the person's spouse have combined net income exceeding thirty-two thousand dollars or twenty-four thousand dollars as applicable.

Sec. 5. Section 422.5, subsection 3B, Code 2019, is amended by adding the following new paragraph:

NEW PARAGRAPH. *d.* (1) For purposes of this subsection, net income includes all amounts of pensions or other retirement income, except for military retirement pay excluded under section 422.7, subsection 31A, paragraph *"a"*, or section 422.7, subsection 31B, paragraph *"a"*, and except for retirement income excluded under section 422.7, subsection 31C, received from any source which is not taxable under this division as a result of the government pension exclusions in section 422.7, or any other state law.

(2) This paragraph *"d"* is repealed January 1, 2023.

Sec. 6. Section 422.7, subsection 31, Code 2019, is amended to read as follows:

31. *a.* For a person who is disabled, or is fifty-five years of age or older, or is the surviving spouse of an individual or a survivor having an insurable interest in an individual who would have qualified for the exemption under this subsection for the tax year, subtract, to the extent included, the total amount of a governmental or other pension or retirement pay, including, but not limited to, defined benefit or defined contribution plans, annuities, individual retirement accounts, plans maintained or contributed to by an employer, or maintained or contributed to by a self-employed person as an employer, and deferred compensation plans or any earnings attributable to the deferred compensation plans, up to a maximum of six thousand dollars for a person, other than a husband or wife, who files a separate state income tax return and up to a maximum of twelve thousand dollars for a husband and wife who file a joint state income tax return. However, a surviving spouse who is not disabled or fifty-five years of age or older can only exclude the amount of pension or retirement pay received as a result of the death of the other spouse. A husband and wife filing separate state income tax returns or separately on a combined state return are allowed a combined maximum exclusion under this subsection of up to twelve thousand dollars. The twelve thousand dollar exclusion shall be allocated to the husband or wife in the proportion that each

spouse's respective pension and retirement pay received bears to total combined pension and retirement pay received.

b. This subsection is repealed January 1, 2023.

Sec. 7. Section 422.7, subsection 31A, Code 2019, is amended by adding the following new paragraph:

NEW PARAGRAPH. *c.* This section is repealed January 1, 2023.

Sec. 8. Section 422.7, subsection 31B, Code 2019, is amended by adding the following new paragraph:

NEW PARAGRAPH. *c.* This subsection is repealed January 1, 2023.

Sec. 9. Section 422.7, Code 2019, is amended by adding the following new subsection:

NEW SUBSECTION. 31C. *a.* (1) For tax years beginning in the 2019 calendar year, subtract, to the extent included, twenty percent of retirement income received by a taxpayer remaining after the subtractions in subsections 31, 31A, and 31B.

(2) For tax years beginning in the 2020 calendar year, subtract, to the extent included, forty percent of retirement income received by a taxpayer remaining after the subtractions in subsections 31, 31A, and 31B.

(3) For tax years beginning in the 2021 calendar year, subtract, to the extent included, sixty percent of retirement income received by a taxpayer remaining after the subtractions in subsections 31, 31A, and 31B.

(4) For tax years beginning in the 2022 calendar year, subtract, to the extent included, eighty percent of retirement income received by a taxpayer remaining after the subtractions in subsections 31, 31A, and 31B.

(5) For tax years beginning on or after January 1, 2023, subtract, to the extent included, retirement income received by a taxpayer.

b. For purposes of this subsection, *"retirement income"* means a governmental or other pension or retirement pay, including but not limited to defined benefit or defined contribution plans, annuities, individual retirement accounts, plans maintained or contributed to by an employer, or maintained or contributed to by a self-employed person as an employer, and deferred compensation plans or any earnings attributable to the deferred compensation plans. *"Retirement income"* includes amounts received as survivor benefits by a taxpayer from the federal government pursuant to 10 U.S.C §1447, et seq.

Sec. 10. RETROACTIVE APPLICABILITY. This Act applies retroactively to January 1, 2019, for tax years beginning on or after that date.

EXPLANATION

The inclusion of this explanation does not constitute agreement with the explanation's substance by the members of the general assembly.

This bill relates to the exclusion of retirement income from the computation of net income for purposes of the individual income tax.

Under current law, a taxpayer may exclude all retirement pay, including certain survivor benefits, received from the federal government for military service performed in the armed forces, the armed forces military reserve, or national guard.

In addition, a taxpayer who is disabled, who is at least 55 years of age, or who is the surviving spouse or other specified survivor of that qualifying taxpayer, may exclude a maximum of $6,000 of other retirement income ($12,000 for married couples).

The bill strikes a provision permitting moneys in the taxpayer relief fund to be used for increases in the general retirement income exclusions in 422.7(31) because the bill provides for a complete exclusion of such retirement income.

The bill phases in over a five-year period the complete exclusion from the individual income tax of a taxpayer's retirement income remaining after the two exclusions referenced above. The percentage of this retirement income that is excluded for tax years beginning in 2019, 2020, 2021, and

2022, is 20 percent, 40 percent, 60 percent, and 80 percent, respectively. For tax years beginning in 2023 or later, 100 percent of a taxpayer's retirement income will be excluded from the individual income tax.

The bill also excludes this retirement income from the calculation of net income for purposes of determining whether or not a taxpayer's net income exceeds the amount at which the individual income tax will not be imposed pursuant to Code section 422.5(3) or Code section 422.5(3B), and for which an individual income tax return is not required to be filed, and for purposes of calculating the alternate tax in Code section 422.5, and further provides that any retirement income excluded from the individual income tax will not be added back to these calculations for tax years beginning in 2023 or later.

The bill defines "retirement income" for purposes of the exclusion.

The bill applies retroactively to January 1, 2019, for tax years beginning on or after that date.